

Staff Report

FY 2024 ADOPTED BUDGET AND FINANCIAL PLAN

August 7, 2023



**NEW YORK STATE
FINANCIAL CONTROL BOARD**

STAFF OF THE NEW YORK STATE FINANCIAL CONTROL BOARD

SENIOR STAFF

Barbara Marin
Administration

Eng-Kai Tan
Economic and Revenue Analysis

Steven A. Bollon
*Expenditure and
Covered Organization Analysis*

Michelle McManus
Finance and Capital Analysis

ANALYTIC STAFF

Millicent Budhai
Sabrina Carione
Yuliya Dubrovenskaya
Mariko Matsuyoshi
Iwona Matusiak
Orlando Vasquez

ADMINISTRATION AND SUPPORT STAFF

Soncire Abadia
Taina M. Sanchez

Table of Contents

I.	Overview	1
II.	Economic Outlook	6
	The City's Economy	7
III.	Review of FY 2023 Modification	12
IV.	FY 2024 Adopted Budget and Financial Plan	14
	Revenues	15
	Tax Revenues	16
	Miscellaneous Revenues	20
	Federal and State Aid	20
	Expenditures	22
	City-Funded Agency Expense Changes	23
	City Council Initiatives	24
	The Impact of Asylum Seekers	25
	Collective Bargaining	26
	Uniformed Overtime	27
	Education	27
	Budget Risks	29
	The Capital Program and Associated Debt Service	29
	FYs 2023–27 Five-Year Capital Plan Financing	30
	FYs 2023–27 Debt Service Costs	30
	Summary of the FYs 2024–33 Ten-Year Capital Strategy	32
	FYs 2024–33 Debt Profile	35
V.	Glossary of Acronyms	37

List of Tables

Table 1. June Financial Plan: The City's Operating Projections Fiscal Years 2023–2027	3
Table 2. Changes to the City's Operating Projections Fiscal Years 2023–2027 June Plan Compared to April Plan.....	4
Table 3. Risks/Offsets to the Financial Plan	5
Table 4. U.S. NonFarm Payroll Growth (Non-Seasonally Adjusted) 1H2023 vs 1H2022.....	7
Table 5. NYC NonFarm Payroll Growth (Non-Seasonally Adjusted) 1H2023 vs 1H2022.....	8
Table 6. City-Funds Changes from the April Modification.....	13
Table 7. City-Funds FY 2024 Executive Budget to FY 2024 Adopted Budget.....	15
Table 8. June Modification Tax Revenue Growth Rate Assumptions.....	19
Table 9. Miscellaneous Revenues	20
Table 10. April to June Financial Plan Total-Funded Changes.....	22
Table 11. April to June Financial Plan City-Funded Changes.....	22
Table 12. Cost Projections for Asylum Seekers FYs 2023–25	25
Table 13. Projected Cost of Asylum Seekers by City, State and Federal Share.....	26
Table 14. City-Funded Debt Service is Projected to Grow Faster Than City-Funded Expenditures and Tax Revenues	31
Table 15. Ten-Year Capital Strategies Lifecycle Comparison	33
Table 16. The Majority of the Current Strategy Increase is to Tax-Supported Capital Commitments.....	34
Table 17. Ten-Year Capital Strategies Funding Distribution Comparison First Half vs Second Half	35

List of Charts

Chart 1. Change in Average Hourly Earnings Year-over-Year, First Half of the Year 9

Chart 2. Average Weekly Occupancy Rate NY,NJ and PA Metro Area 10

Chart 3. Number of Visitors to New York City..... 10

Chart 4. Operating Results in June Modification vs Actual 13

Chart 5. FY 2024 Revenue Sources 16

I. Overview

The city continues to show healthy job growth, with the creation of 175,800 new jobs in the first half of 2023 representing a 3.9 percent increase, exceeding the national growth of 2.8 percent. However, unlike the nation, which saw positive growth in all sectors, certain sectors in the city, such as utilities, information, and transportation & warehousing experienced slight declines. Despite these declines, collectively, the city's private sector outperformed the nation's private sector. With the current addition, the city's payroll jobs have now surpassed the prepandemic level by about 29,000.

While jobs in the city have recovered to prepandemic level, the number of employees working in offices is still significantly below prepandemic level. The combination of hybrid working and high vacancy rate paints a grim picture for the commercial real estate market, which continues to remain depressed. On the other hand, tourism continues its strong recovery. The New York City Tourism + Conventions projects that the number of visitors will surpass prepandemic level by 2024. The city's sales and hotel room occupancy tax revenue projections also point to an expectation of a strong recovery in the tourism industry.

Recent positive inflation and economic data show promising signs of the Federal Reserve's ability to achieve a soft landing in its effort to rein in inflation. Despite the encouraging data, on July 26, the Federal Reserve raised the Federal Funds rate by another 25 basis points to a range of 5.25 percent–5.5 percent, citing still elevated inflation relative to the Fed's target. On balance, the Financial Control Board (FCB) believes that current economic data points to a slowdown in the economy over the next 12 months. However, at this point, the FCB is not forecasting a recession in the coming year.

The FY 2023 June modification totals \$110.83 billion, an increase of \$9.7 billion from the start of the fiscal year. Contributing to the growth of FY 2023 expenditures are the costs of providing services to asylum seekers amounting to \$1.5 billion, and the incremental costs of labor agreements for the 2021–26 round of collective bargaining, patterned after the District Council 37 agreement for civilians and the Police Benevolent Association agreement for uniformed employees citywide, totaling \$2.3 billion. More than offsetting the higher expenditures was the collection of \$5.2 billion of tax revenues in excess of the June 2022 forecast, the drawdown of reserves and prior-year payables as well as increased federal and state aid, allowing the city to achieve a budget surplus of \$5.5 billion. The budget surplus was used to prepay FY 2024 expense, resulting in a balanced budget in accordance with Generally Accepted Accounting Principles (GAAP). However, while the FY 2023 budget is GAAP balanced, expenditures, net of the impact of prepayments, exceed revenue estimates, resulting in an operating budget deficit.

The FY 2024 Adopted Budget totals \$107.12 billion, \$426 million more than the FY 2024 Executive Budget. The change is due primarily to a \$496 million increase in state categorical funds partially offset by a \$91 million decrease in federal categorical funds. The revision to city-funds expenditures reflects a \$2.4 billion increase in the prepayment of FY 2024 expenditures, which offsets all but \$21 million of the \$2.5 billion increase to the city-funds expenditures. Revisions to agency expense account for \$1.1 billion and council initiatives account for \$528 million of the increase. The remaining change reflects the reduction of \$465 million in the prior assumption of federal support for asylum seekers, shifting the cost to city funds, and increased city-funds spending from enacted state budget initiatives.

Beyond FY 2024, the June Plan projects budget gaps of \$5.1 billion in FY 2025, growing to \$7.9 billion by FY 2027, as city-funds expenditures are projected to outpace city-funds revenues by 10.3 percentage points between FY 2024 and FY 2027. The FCB's risk analysis shows budget surpluses of \$70 million in FY 2023 and \$702 million in FY 2024 but larger gaps of \$6.5 billion in FY 2025, \$9.9 billion in FY 2026, and \$12.6 billion in FY 2027. The higher gaps in FY 2025 and FY 2026 are due to the FCB's expenditures estimates, which exceed the Plan projections in each of FY 2023–27. On the other hand, the FCB projects higher tax revenues in each of FYs 2023–26, but lower tax revenues in FY 2027. As a result, the FCB tax revenue forecast helps offset the expenditure risks in FYs 2023–26 but adds to the expenditure risks in FY 2027.

The city's five-year capital plan for FYs 2023–27 amounts to \$98 billion in total-funded authorized commitments. The city projects 80 percent of the capital plan to be funded with tax-supported debt, with the assumed debt service expense as a percentage of tax revenues expected to remain below the affordability threshold of 15 percent throughout FYs 2023–27 based on current tax revenue projections and assumptions of the local economy. The debt service costs are projected to accelerate as a portion of the operating budget and require an increasing percentage of tax revenues. Additionally, in the current rising interest rate climate, debt service savings will be less available.

Given the high level of commitments in the five-year capital plan, the city may not be able to achieve its targeted total. Consequently, we urge the city to undertake a critical review of its capital program and give more consideration to establishing a realistic capital plan that can be practically undertaken and managed. Without effectively managing spending, the capital program may become unaffordable as there could be increasing pressure to support other expense areas while tax revenue growth is moderate.

**Table 1. June Financial Plan: The City's Operating Projections
Fiscal Years 2023–2027**

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<u>Revenues</u>					
Taxes:					
General Property (Including STAR)	\$31,620	\$32,705	\$32,366	\$32,633	\$33,238
Other Taxes	40,058	37,713	39,747	41,118	42,962
Tax Audit Revenue	1,300	721	721	721	721
Miscellaneous Revenues	8,459	7,808	7,618	7,557	7,513
Unrestricted Intergovernmental Aid	297	--	--	--	--
Less: Intracity Revenues	(2,407)	(1,990)	(1,980)	(1,983)	(1,980)
Disallowances	(15)	(15)	(15)	(15)	(15)
Total City Funds	\$79,312	\$76,942	\$78,457	\$80,031	\$82,439
Other Categorical Grants	902	1,082	1,075	1,071	1,070
Interfund Revenues	695	720	725	732	732
Federal Categorical Grants	11,923	10,320	7,816	7,054	7,027
State Categorical Grants	17,997	18,051	17,714	17,477	17,540
Total Revenues	<u>\$110,829</u>	<u>\$107,115</u>	<u>\$105,787</u>	<u>\$106,365</u>	<u>\$108,808</u>
<u>Expenditures</u>					
Personal Service	\$54,689	\$55,967	\$58,342	\$60,976	\$62,994
Other Than Personal Service	51,679	49,427	44,815	43,751	44,546
General Obligation, Lease & TFA Debt Service	7,483	7,740	8,239	9,007	9,698
Budget Stabilization & Prepayments	(635)	(5,479)	--	--	--
Capital Stabilization Reserve	0	250	250	250	250
General Reserve	20	1,200	1,200	1,200	1,200
Subtotal	\$113,236	\$109,105	\$112,846	\$115,184	\$118,688
Less: Intracity Expenditures	(2,407)	(1,990)	(1,980)	(1,983)	(1,980)
Total Expenditures	<u>\$110,829</u>	<u>\$107,115</u>	<u>\$110,866</u>	<u>\$113,201</u>	<u>\$116,708</u>
<u>Gap To Be Closed</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$5,079)</u>	<u>(\$6,836)</u>	<u>(\$7,900)</u>

**Table 2. Changes to the City's Operating Projections
Fiscal Years 2023–2027 June Plan Compared to April Plan**

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<u>Revenues</u>					
Taxes:					
General Property (Including STAR)	\$50	\$300	\$--	\$--	\$--
Other Taxes	1,740	(300)	--	--	--
Tax Audit Revenue	100	--	--	--	--
Miscellaneous Revenues	208	15	(6)	(5)	(5)
Unrestricted Intergovernmental Aid	--	--	--	--	--
Less: Intracity Revenues	(46)	6	7	6	6
Disallowances	--	--	--	--	--
Total City Funds	<u>\$2,052</u>	<u>\$21</u>	<u>\$1</u>	<u>\$1</u>	<u>\$1</u>
Other Categorical Grants	(207)	--	--	1	--
Interfund Revenues	(11)	--	--	--	--
Federal Categorical Grants	202	(91)	(244)	2	1
State Categorical Grants	<u>(116)</u>	<u>496</u>	<u>174</u>	<u>173</u>	<u>173</u>
Total Revenues	<u>\$1,920</u>	<u>\$426</u>	<u>(\$69)</u>	<u>\$177</u>	<u>\$175</u>
<u>Expenditures</u>					
Personal Service	(\$561)	\$372	(\$21)	\$95	\$108
Other Than Personal Service	174	2,567	855	987	1,011
General Obligation, Lease & TFA Debt Service	(61)	(75)	(27)	(27)	(27)
Budget Stabilization & Prepayments	2,444	(2,444)	--	--	--
Capital Stabilization Reserve	--	--	--	--	--
General Reserve	<u>(30)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Subtotal	<u>\$1,966</u>	<u>\$420</u>	<u>\$807</u>	<u>\$1,055</u>	<u>\$1,092</u>
Less: Intracity Expenditures	<u>(46)</u>	<u>6</u>	<u>7</u>	<u>6</u>	<u>6</u>
Total Expenditures	<u>\$1,920</u>	<u>\$426</u>	<u>\$814</u>	<u>\$1,061</u>	<u>\$1,098</u>
<u>Decrease/(Increase) to the Gap</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$883)</u>	<u>(\$884)</u>	<u>(\$923)</u>

Table 3. Risks/Offsets to the Financial Plan

(\$ in millions, positive numbers are offsets to risks)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Stated Financial Plan Gap	\$0	\$0	(\$5,079)	(\$6,836)	(\$7,900)
<u>Revenues</u>					
Tax Revenues					
Property Tax	\$91	\$225	\$579	\$646	\$684
Nonproperty Tax	0	1,654	57	(514)	(1,500)
Subtotal Tax Revenues	\$91	\$1,879	\$636	\$132	(\$816)
<u>Expenditures</u>					
Health and Welfare					
Support for Asylum Seekers	\$0	\$0	(\$290)	(\$710)	(\$710)
Paratransit Reimbursements	10	(75)	(89)	(104)	(120)
MTA Bus Operating Deficiency	(92)	(33)	(135)	(274)	(315)
Foster Care	0	(118)	(118)	(118)	(118)
CityFHEPS	0	0	(230)	(223)	(229)
Subtotal Health and Welfare	(\$83)	(\$226)	(\$862)	(\$1,428)	(\$1,492)
Education					
Carter Cases	\$0	(\$115)	(\$265)	(\$265)	(\$265)
Charter Schools	0	(47)	(109)	(298)	(508)
Mandated Class Size Reduction	0	0	0	(433)	(863)
Pupil Transportation	0	(78)	(78)	(78)	(78)
Summer Rising	0	(96)	(176)	(176)	(176)
Subtotal Education	\$0	(\$336)	(\$628)	(\$1,250)	(\$1,890)
Other					
Uniformed Services Overtime	\$62	(\$615)	(\$644)	(\$647)	(\$647)
Pension Contributions	0	0	51	116	177
Subtotal Other	\$62	(\$615)	(\$593)	(\$531)	(\$470)
Subtotal Expenditures Risks	(\$21)	(\$1,177)	(\$2,083)	(\$3,209)	(\$3,852)
Total (Risks)/Offsets	\$70	\$702	(\$1,447)	(\$3,077)	(\$4,668)
Total FCB Estimated					
Surplus/(Gap)	\$70	\$702	(\$6,526)	(\$9,913)	(\$12,568)

Numbers may not add due to rounding.

II. Economic Outlook

The national economy continues to show remarkable resilience, with the advanced estimate of 2023 second quarter real gross domestic product (RGDP) growing at an annualized rate of 2.4 percent, following a 2.0 percent annualized growth in the first quarter. The second quarter growth exceeds the consensus estimate of 1.3 percent, fueled by healthy personal consumption expenditures which contributed 1.12 percentage points to the overall RGDP growth. Gross domestic investment, which had declined in three of the four previous quarters, grew by 5.7 percent, contributing 0.97 percentage points to overall growth. Government consumption expenditures and gross investment also posted positive growth of 2.6 percent, and contributed 0.45 percentage points to the overall RGDP growth.

Furthermore, the labor market continues to show strength even as interest rates continue to rise. The unemployment rate of 3.5 percent in the first half of 2023 is considerably lower than the 5.7 percent historical average and the lowest it has been since the first half of 1969. In addition, the employment-population ratio rose to 60.3 percent, surpassing the historical average of 59.2 percent.

In the first half of 2023 nonfarm payroll jobs grew by an annual rate of 2.8 percent from the same period in 2022, adding 4.2 million jobs. Key sectors driving this job creation include government, professional and business services, health care, and food services and drinking places. These sectors accounted for a significant share of the jobs added, ranging from 12.1 percent to 14.8 percent, and collectively accounting for 54.2 percent of jobs created, as shown in Table 4 on page 7. Furthermore, all sectors and sub-sectors showed positive growth, including the real estate and rental and leasing sub-sector. Despite rising interest rates and concerns about the commercial real estate sector, the real estate and rental and leasing subsector grew at a respectable 2.6 percent, accounting for 1.4 percent of the 4.2 million new jobs created.

**Table 4. U.S. NonFarm Payroll Growth (Non-Seasonally Adjusted)
1H2023 vs 1H2022**

(Jobs in thousands)

Sectors	Total Jobs	Change	% Change	Share of Jobs Added
Total Nonfarm	154,976	4,158	2.8%	100.0%
Total Private	132,265	3,656	2.8%	87.9%
Food Services and Drinking Places	12,129	614	5.3%	14.8%
Health Care	16,711	601	3.7%	14.5%
Professional and Business Services	22,792	534	2.4%	12.9%
Mining, Logging, and Construction	8,423	269	3.3%	6.5%
Social Assistance	4,460	263	6.3%	6.3%
Manufacturing	12,951	255	2.0%	6.1%
Other Services	5,824	182	3.2%	4.4%
Arts, Entertainment, and Recreation	2,370	172	7.8%	4.1%
Private Educational Services	3,939	169	4.5%	4.1%
Transportation and Warehousing	6,669	126	1.9%	3.0%
Accommodation	6,032	125	2.1%	3.0%
Wholesale Trade	1,827	125	7.3%	3.0%
Retail Trade	2,395	61	2.6%	1.5%
Real Estate and Rental and Leasing	15,428	58	0.4%	1.4%
Information	3,073	53	1.8%	1.3%
Insurance Carriers and Related Activities	2,923	31	1.1%	0.8%
Finance	3,765	14	0.4%	0.3%
Utilities	554	3	0.6%	0.1%
Government	22,711	502	2.3%	12.1%

Source: Bureau of Labor Statistics
Numbers may not add due to rounding.

Inflation has been moderating in response to the Federal Reserve's aggressive rate hikes, beginning in March 2022, to address high inflation levels, which peaked at 9.1 percent a year ago. The consumer price index (CPI) for June showed a three percent year-over-year growth, the lowest rate since March 2021. Stripping out the volatile food and energy prices, core CPI growth rate also moderated, falling to 4.8 percent from the previous month's 5.3 percent. Despite the encouraging data, the Federal Reserve raised the Federal Funds rate by another 25 basis points to a range of 5.25 percent–5.5 percent, citing still elevated inflation relative to the Federal Reserve's target of 2 percent. The June personal consumption expenditure (PCE) price index, the Federal Reserve's preferred measure of inflation, grew by 3 percent year-over-year, significantly above the Federal Reserve's target of 2 percent.

The City's Economy

Like the nation, the city continues to show healthy job growth, with the creation of 175,800 new total nonfarm payroll jobs in the first half of 2023 compared with the same period in 2022. This represents a 3.9 percent increase, exceeding the national growth of 2.8 percent. However, unlike the nation, which saw positive growth in all sectors, certain sectors in the city, such as utilities, information, and transportation and warehousing experienced slight declines ranging from 0.6 percent to 2.5 percent, as shown in Table 5 on page 8. Despite these declines, collectively, the city's private sector outperformed the nation's private sector, growing by 4.4 percent compared to the nation's 2.8 percent. With the current addition, the city's nonfarm payroll jobs have now surpassed the prepandemic level by about 29,000.

**Table 5. NYC NonFarm Payroll Growth (Non-Seasonally Adjusted)
1H2023 vs 1H2022**

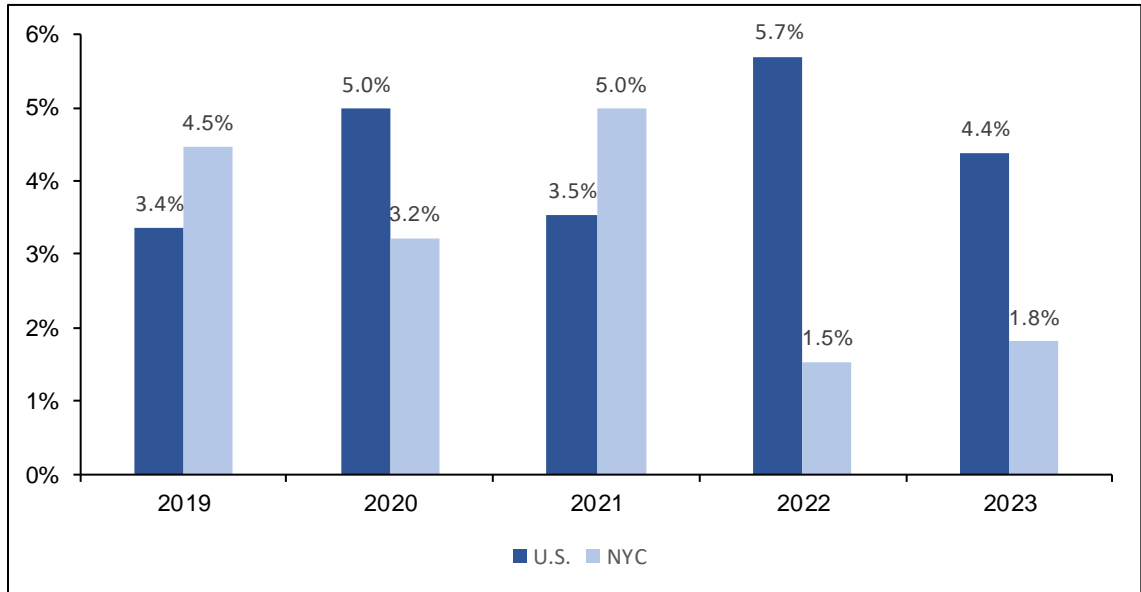
(Jobs in thousands)

Sectors	Total Jobs	Change	% Change	Share of Jobs Added
Total Nonfarm	4,646.5	175.8	3.9%	100.0%
Total Private	4,075.2	171.3	4.4%	97.4%
Health Care	657.2	48.0	7.9%	27.3%
Food Services and Drinking Places	305.4	35.4	13.1%	20.1%
Social Assistance	251.5	24.3	10.7%	13.8%
Professional and Business Services	786.5	23.7	3.1%	13.5%
Finance	299.1	10.7	3.7%	6.1%
Other Services	183.6	7.5	4.2%	4.2%
Mining, Logging, and Construction	148.6	7.4	5.3%	4.2%
Arts, Entertainment, and Recreation	81.6	6.7	8.9%	3.8%
Accommodation	43.4	6.5	17.7%	3.7%
Real Estate and Rental and Leasing	132.1	2.5	2.0%	1.4%
Insurance Carriers and Related Activities	61.5	2.2	3.7%	1.2%
Wholesale Trade	129.9	0.7	0.5%	0.4%
Private Educational Services	263.2	0.6	0.2%	0.4%
Retail Trade	302.1	0.2	0.1%	0.1%
Manufacturing	57.3	0.1	0.1%	0.0%
Utilities	14.5	(0.1)	(0.6%)	0.0%
Information	229.6	(1.8)	(0.8%)	(1.0%)
Transportation and Warehousing	128.3	(3.3)	(2.5%)	(1.9%)
Government	571.4	4.5	0.8%	2.6%

Source: NY State Department of Labor
Numbers may not add due to rounding.

Furthermore, private sector average hourly earnings increased by 1.8 percent, from \$41.26 in the first half of 2022 to \$42.01 in the first half of the 2023. This is smaller than the nation's increase of 4.4 percent in average hourly earnings, as shown in Chart 1 on page 9. The city's higher unemployment rate of 5.3 percent, compared to the nation's 3.5 percent, is likely a contributing factor to the slower pace of earning growth in the city.

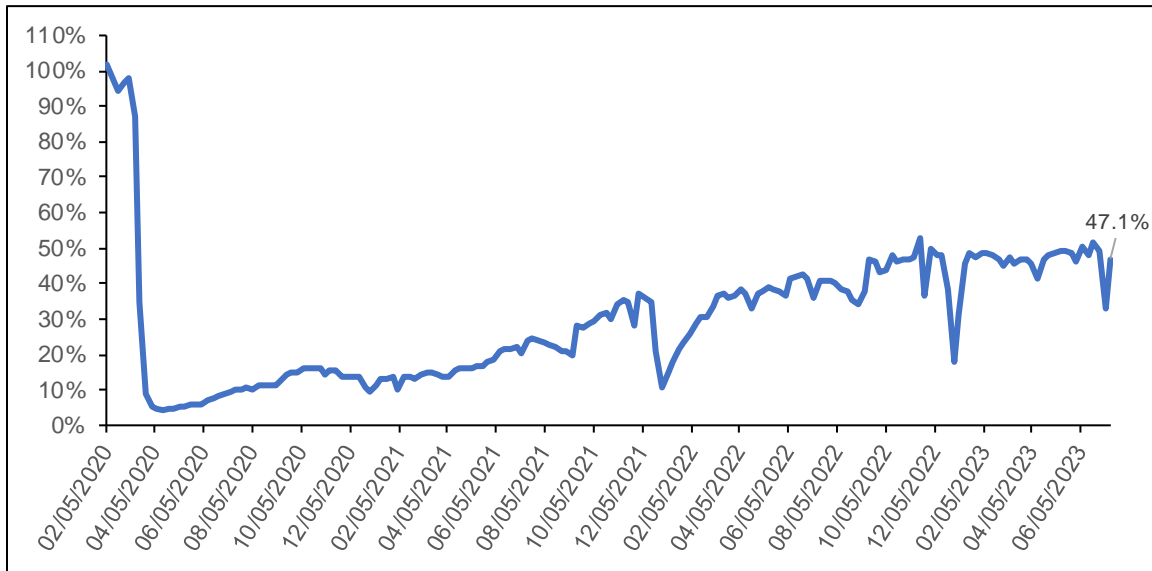
**Chart 1. Change in Average Hourly Earnings
Year-over-Year, First Half of the Year**



Source: Bureau of Labor Statistics

While nonfarm payroll jobs in the city have recovered to prepandemic level, the number of employees working in the office is still significantly below prepandemic level. Data from the weekly occupancy report from Kastle Systems shows that average weekly occupancy in the New York, New Jersey, and Pennsylvania metro area for the week ending July 12, 2023 was 47.1 percent. The rate at which employees are returning to the office also appears to be slowing down, as shown in Chart 2 on page 10. Moreover, office occupancy remains significantly below prepandemic level. According to data from Cushman and Wakefield, Manhattan office vacancy rate in the second quarter of 2023 reached a new record high of 22.4 percent. The combination of low office occupancy and high vacancy rate paints a grim picture for the commercial real estate market, which continues to remain depressed.

Chart 2. Average Weekly Occupancy Rate NY, NJ and PA Metro Area

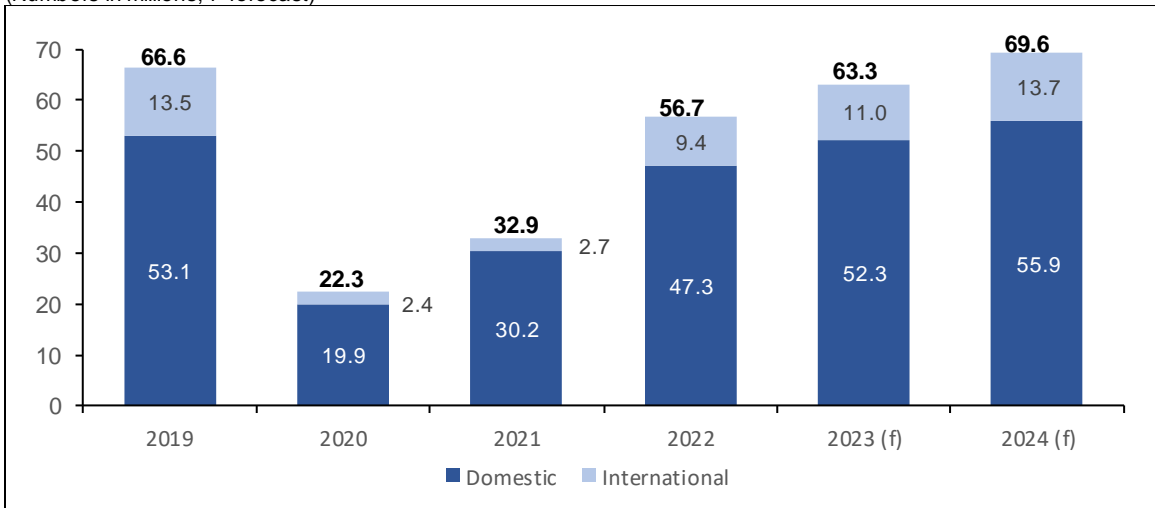


Source: Kastle Systems

On the other hand, tourism continues its strong recovery. According to data from New York City Tourism + Conventions there were 56.7 million visitors to the city in 2022, about 2.5 times the low in 2020, the year of the onset of the pandemic. As shown in Chart 3, New York City Tourism + Conventions projects that the number of visitors will surpass prepandemic level by 2024. The city's sales and hotel room occupancy tax revenue projections also point to an expectation of a strong recovery in the tourism industry. The hotel room occupancy tax revenue is expected to almost double from \$345 million in FY 2022 to \$642 million in FY 2023, and grow about another 19 percent by FY 2027 with projected growth in each year in between. Similarly, sales tax revenues are projected to show healthy growth, increasing by 11 percent in FY 2023 to \$9.52 billion, and growing by another 19 percent to \$11.35 billion by FY 2027.

Chart 3. Number of Visitors to New York City

(Numbers in millions, f=forecast)



Source: New York City Tourism + Conventions

Overall, recent positive inflation and economic data show promising signs of the Federal Reserve's ability to achieve a soft landing in its effort to rein in inflation but there are potential headwinds ahead for the national economy, and consequently, the local economy, over the next year. Although the aggressive interest rate hikes by the Federal Reserve haven't stalled the economy, its effect on private domestic investment could impact the overall economy. While gross private domestic investment grew by 5.7 percent in the second quarter of 2023, it is too early to tell if it represents a recovery. Gross private domestic investment grew by 4.5 percent in the fourth quarter of 2022 but was followed by an 11.9 percent decline in the first quarter of 2023.

The US economy is also exposed to uncertainty stemming from global and geopolitical factors. The ongoing war in Ukraine is creating uncertainty in energy and commodity prices, affecting trade in Europe, which is already grappling with a soft economy. The European Union's economy, for instance, experienced a decline of 0.7 percent on an annualized basis in the fourth quarter of 2022 and showed an anemic growth of 0.4 percent in the first quarter of 2023. The fragility of the European economy makes it ill-prepared to absorb any significant shocks.

On balance, the Financial Control Board (FCB) believes that current economic data points to a slowdown in the economy over the next 12 months. However, at this point, the FCB is not forecasting a recession in the coming year.

III. Review of FY 2023 Modification

The FY 2023 June modification totals \$110.83 billion, an increase of \$4.62 billion from FY 2022 expenditures. Contributing to the increase are expenditures related to the surge in asylum seekers in FY 2023 and the incremental costs of labor agreements for the 2021–26 round of collective bargaining patterned after the District Council 37 (DC 37) agreement for civilians and the Police Benevolent Association (PBA) agreement for uniformed employees citywide.¹ The FY 2023 June modification projects spending of \$1.46 billion on services for asylum seekers and \$2.29 billion in incremental labor costs above the 1.25 percent assumed in financial plans prior to the DC 37 agreement. The incremental FY 2023 labor cost includes retroactive increases for prior years.

Compared to the April modification, the June modification shows an increase of \$1.92 billion in FY 2023. This increase is driven by a \$2.05 billion increase in the city-funds portion of the budget, partially offset by a modest net downward revision of \$132 million in the categorical funds portion of the budget.

Upward revision to tax revenues accounts for \$1.89 billion of the increase in FY 2023 city-funds revenues, as shown in Table 6 on page 13. Revision to personal income tax (PIT) revenue accounts for most of the increase with an upward adjustment of \$1.26 billion.² The revision to tax revenues reflects stronger-than-anticipated collection to date. Tax revenues through May exceeded the April modification forecast by \$872 million, with PIT (including PTET) surpassing the forecast by \$741 million.

City-funded expenditures, before prepayments, are \$392 million below the April modification, due primarily to a \$305 million reduction in FY 2023 pension contributions. The reduction stems from the elimination of \$305 million of reserve previously allocated to fund pension cost increases resulting from potential changes in actuarial assumptions and methodologies, which are no longer necessary.

Overall, the changes to city-funds revenues and expenditures result in an expected increase of \$2.44 billion in the FY 2023 budget surplus, as shown in Table 6 on page 13. The increase brings the projected FY 2023 budget surplus to \$5.48 billion. The surplus is earmarked to prepay \$2.81 billion of FY 2024 general obligation (g.o.), and \$2.17 billion of FY 2024 New York City Transitional Finance Authority future tax secured (TFA-FTS) debt service cost, as well as \$500 million of FY 2024 retiree health benefits, resulting in a budget that is balanced in accordance with Generally Accepted Accounting Principles (GAAP). However, while the budget is GAAP balanced, FY 2023 expenditures, net of the

¹ The DC 37 agreement provides for a 3 percent wage increase at the beginning of each of the first four years of the contract and a 3.25 percent at the beginning of the fifth and final year of the contract. The PBA contract provides for wage increases of 2.25 percent at the beginning of the first year of the contract, 2.5 percent increase at the beginning of the second year of the contract, 3 percent at the beginning of the third year of the contract, 3.25 percent at the beginning of the fourth year and fifth year of the contract, 3.5 percent at the beginning of the sixth and seventh year of the contract and 4 percent at the beginning of the eighth year of the contract. The first three years of the contract represent the previous round of collective bargaining, and the last five years represent the current round of collective bargaining and serves as the pattern for other uniformed employees. The United Federation of Teachers has also reached an agreement with the city on a five-year-plus contract which provides for wage increases of 3 percent for each of the first three years of the contract, 3.25 percent in the fourth year and 3.5 percent in the fifth year.

² PIT includes \$27 million increase in pass-through entity tax (PTET).

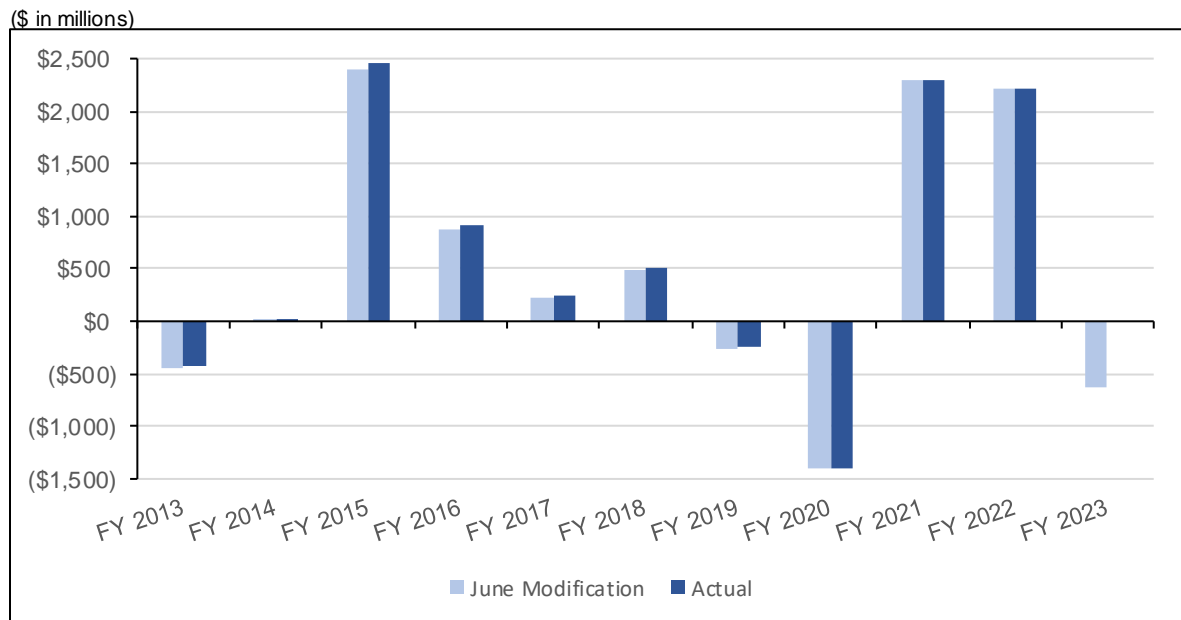
impact of prepayments, exceed revenue estimates by \$635 million, resulting in an operating budget deficit of \$635 million after two years of operating surpluses following the recovery from COVID, as shown in Chart 4.³

Table 6. City-Funds Changes from the April Modification

(\$ in millions)

Revenues	
Tax	\$1,891
Non Tax	161
Total Revenues	\$2,052
Expenditure	
Agency Expense Change	\$27
Asylum Seekers	50
Current Year PEG	(72)
Debt Service Savings	(62)
General Reserve	(30)
Pension	(305)
Total Expenditures	(\$392)
Budget Surplus	\$2,444
Prepayment	(\$2,444)
Gap	\$0

Chart 4. Operating Results in June Modification vs Actual



³ Operating surpluses and deficits are discussed in greater detail in “Operating Results” in the FCB Staff Report FY 2024 Executive Budget and Financial Plan released on May 24, 2023.

IV. FY 2024 Adopted Budget and Financial Plan

The FY 2024 Adopted Budget totals \$107.12 billion, \$426 million more than the FY 2024 Executive Budget. The change is due almost entirely to a net increase of \$405 million in the categorical funds portion of the budget, stemming from a \$496 million increase in state categorical funds partially offset by a \$91 million decrease in federal categorical funds. The city-funds portion of the budget was revised upwards by a modest \$21 million.

The increase in the state categorical funds portion of the budget is due mainly to an increase in state education aid. The drop in the federal categorical portion of the budget primarily reflects a reduction of \$465 million in the estimate of federal support for asylum seekers, offset by the roll of \$246 million of American Rescue Plan Act (ARPA) Elementary and Secondary School aid from FY 2025 into FY 2024, and an upward revision of \$111 million in ARPA Higher Education aid.

City-funds revenue increase in FY 2024 is mainly from an increase of \$20 million in water and sewer charges to reimburse expenditures related to the operation and maintenance of the water delivery and wastewater disposal system.⁴ The revision to city-funded expenditures reflects a \$2.44 billion increase in the prepayment of FY 2024 expenditures, which offsets all but \$21 million of the \$2.47 billion increase to the city-funded expenditures in the Adopted Budget, as shown in Table 7 on page 15. Revision to agency expense accounts for \$1.11 billion of the increase, more than half of which are in the Department of Social Services (DSS) with an increase of \$310 million, and the Department of Education (DOE) with an increase of \$234 million. Council initiatives account for another \$528 million of the increase. The remaining change reflects the reduction of \$465 million in the prior assumption of federal support for asylum seekers, shifting the cost to city funds, and increased city-funds spending from enacted state budget initiatives.

⁴ Water and sewer charges are remitted to the city for the reimbursement for the operation and maintenance of the water delivery and wastewater disposal system and generally do not provide budget relief in addressing budget gaps.

Table 7. City-Funds FY 2024 Executive Budget to FY 2024 Adopted Budget

(\$ in millions)

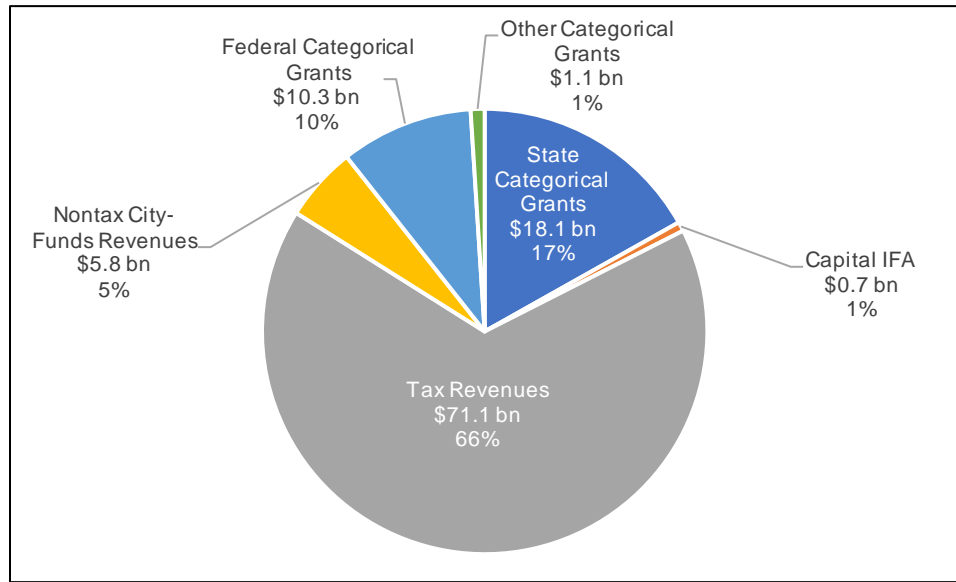
Gap to be Closed - FY 2024 Executive Budget	\$0
Water and Sewer Charges	\$20
Rental Income	1
Total Revenues	\$21
Agency Expense Change	\$1,112
Council Initiatives	528
Asylum Seekers — Reduced Federal Funding Assumption	465
State Budget Impact	435
Debt Service	(75)
Total Expenditures	\$2,465
Gap to be Closed Before Prepayments	(\$2,444)
FY 2023 Prepayment	\$2,444
Gap to be Closed - FY 2024 Adopted Budget	\$0

Beyond FY 2024, the June plan projects budget gaps of \$5.08 billion in FY 2025, growing to \$7.90 billion by FY 2027, as city-funded expenditures are projected to outpace city-funds revenues by 10.3 percentage points between FY 2024 and FY 2027. However, the Financial Control Board's (FCB) risk analysis of the plan shows larger gaps of \$6.53 billion in FY 2025, \$9.91 billion in FY 2026, and \$12.57 billion in FY 2027. The higher gaps projected by the FCB in FY 2025 and FY 2026 are due to the FCB's estimates of risks to the plan expenditure projections. The FCB's higher revenue forecast in these fiscal years offsets some of the risks. The FCB's higher revenue forecasts in FY 2023 and FY 2024 exceed our expenditure risks, resulting in estimated budget surpluses of \$70 million in FY 2023 and \$702 million in FY 2024.

Revenues

Revenues in the FY 2024 Adopted Budget total \$107.12 billion. City-funds revenues, which comprise tax revenues and locally generated non-tax revenues account for more than 70 percent of total revenues, as shown in Chart 5 on page 16. Revenues are projected to grow by \$1.69 billion, or 1.6 percent, by the end of the plan period. The growth is driven by city-funds revenues, which are projected to grow by \$5.50 billion, or 7.1 percent. Categorical grants, in contrast, are projected to fall \$3.80 billion, or 12.6 percent, offsetting some of the increase in city-funds revenues. The decline in categorical grants is driven by a \$3.29 billion drop in federal categorical grants, largely reflecting the wind-down of COVID relief and stimulus grants.

Chart 5. FY 2024 Revenue Sources



Tax Revenues

The June modification raised forecast for FY 2023 tax revenues by \$1.89 billion but left the net forecasts for each of FYs 2024–27 unchanged. The FY 2023 tax revenues have been revised up by a total of \$5.23 billion since it was adopted in June 2022. FY 2024 tax revenues are projected to decline to \$71.14 billion but expected to begin recovering in FY 2025. However, tax revenue is not anticipated to surpass FY 2023 level of \$72.98 billion until FY 2026. Over the plan period, tax revenues are projected to increase by \$3.94 billion or 5.4 percent.

Plan to Plan Changes

The upward revisions for FY 2023 are largely consistent with collections to date. Collections through May are \$872 million above the April modification estimate, and \$3.4 billion or 5.2 percent above FY 2022 for the same period. Most of the upward revision to FY 2023 tax revenues is attributable to changes in nonproperty tax, as shown in the figure to the right.⁵ Nonproperty tax is revised up by \$1.74 billion, primarily driven by an increase of \$1.26 billion in PIT. All other

Tax Revenue Changes April Modification vs June Modification (\$ in millions)		
	FY2023	FY2024
Property	\$50	\$300
PIT	\$1,260	(\$300)
Business	\$439	\$0
Sales	\$60	\$0
Real-estate Transaction	(\$16)	\$0
All Other	(\$2)	\$0
Audit	\$100	\$0
Nonproperty	\$1,741	(\$300)
Total	\$1,891	\$0

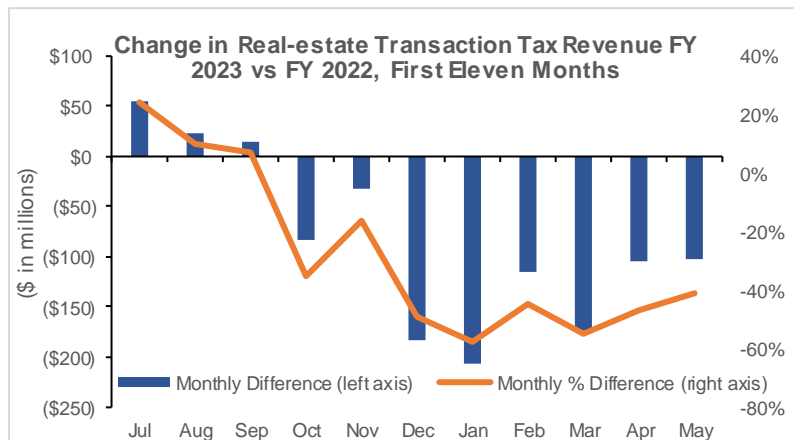
⁵ Unless otherwise stated, property tax includes school tax aid relief (STAR); PIT (personal income tax) includes PTET (pass-through entity tax); business tax includes general corporation, unincorporated business and banking corporation taxes where applicable; real estate transaction tax includes real property transfer and mortgage recording taxes; all other includes commercial rent, utility, hotel, cigarette, cannabis and other taxes; nonproperty includes all taxes except property tax, STAR and tax audit; total includes all taxes, STAR and tax audit.

taxes, with the exception of real-estate transaction and all other tax revenues, were also revised upwards.

For FY 2023, projection for gross PIT collection was increased by \$1.52 billion, PTET by \$27 million and refunds by \$285 million, netting a higher projection of \$1.26 billion. Through May, PIT collection has exceeded the April plan projection by \$741.3 million. For FY 2024, PIT gross collection is reduced by \$18 million and expected refunds is higher by \$282 million, resulting in a downward revision of \$300 million. In the subsequent fiscal years of the plan (FYs 2025–27), there are modest offsetting changes in gross collections and refunds for PIT, resulting in no net change to PIT projections.

The business tax forecast for FY 2023 is increased by \$439 million, with no changes for FYs 2024–27, stemming primarily from revision to the general corporation tax (GCT). Gross collections for GCT were revised up by \$382 million and expected refunds reduced by \$57 million. GCT collections through May are a modest \$76 million above the April modification estimate, while unincorporated business tax is \$9 million over the April estimate. Sales tax projection is increased by \$60 million despite collections through May being about \$46 million below the April modification estimate. However, collections through May are still significantly higher than over a comparable period in FY 2022 by \$965.3 million. Audit projection is increased by \$100 million with collections through May surpassing the April modification estimate by over \$60 million.

Real-estate transaction tax has been revised down, reflecting the dampening effect on real estate activities from higher interest rates. Projections were lowered by \$16 million from the April modification estimate, and a total of \$192 million since the budget adoption in June 2022. Collections through May are \$905.2 million or 31.3 percent below FY 2022 and \$6.9 million below the April modification estimate. The city is projecting a fall of over 33 percent, or one billion dollars compared with FY 2022. Still, the declining performance relative to FY 2022 appears to have bottomed out, as shown in the chart to the right. The drop relative to FY 2022 peaked at 57.6 percent or \$207 million in January 2023 and the monthly decline has been less since.



Property tax forecast has been raised by \$50 million for FY 2023 due to reduction in the size of the reserves for delinquencies, cancellations and abatements. For FY 2024, the property tax forecast is raised by \$300 million, primarily driven by an increase in the levy by \$432.5 million. This increase is partially offset by higher forecasts for reserves by \$32.5 million, and refunds by \$100 million. Some of this higher forecast reflects a better -than-expected final assessment roll. Market value on the final property assessment roll showed an increase of \$2.4 billion over the tentative assessment, instead of the usual anticipated decline due to challenges to assessed valuations. Class 1 and Class 4 valuations fell by \$545 million and \$1.4 billion respectively, but were offset by higher final assessments for

Class 2 properties of \$663 million and Class 3 properties of \$3.7 billion. Taxable billable assessed values overall increased by \$167 million from the tentative to the final assessment roll with Classes 1, 2 and 4 decreasing by \$217 million, \$628 million and \$670 million respectively, while Class 3 increased by \$1.7 billion.⁶

Tax revenue growth assumptions June Plan

FY 2023 total tax revenue is projected to grow 4.9 percent or \$3.38 billion over FY 2022, in line with the ten-year trend annual growth rate of 4.8 percent. In contrast, FY 2024 tax revenues are projected to decline 2.5 percent or \$1.84 billion compared with FY 2023, driven by a 5.9 percent drop in nonproperty tax, primarily from declines in PIT, business tax, and tax audit, as shown in Table 8 on page 19.

PIT is estimated to fall by \$2.26 billion, or 13.1 percent, to \$14.94 billion in FY 2024, after increasing over \$500 million in FY 2023. Much of the PIT drop derives from anticipated declines of \$1.18 billion in offsets and \$994 million in PTET. Although growth is projected to resume for the rest of the plan period, the weakness in FY 2024 dampens overall growth, resulting in only a 0.8 percent growth over the plan, with a projected increase of only \$555 million between FYs 2023–27. Business tax is also anticipated to decrease by 6.8 percent or \$559 million to \$7.72 billion in FY 2024. This decline is solely due to GCT, which falls \$601 million, offset by a \$42 million increase in UBT. Business tax is expected to remain weak throughout the entire plan due to the continuous decline in GCT while UBT is forecast to increase yearly, leading to a total decrease of \$453 million over the plan period. Furthermore, audit revenues are forecast to fall by \$579 million in FY 2024, mainly as a result of a non-recurring one-time collection, and to remain flat for the rest of the plan period.

While PIT, business and audit are projected to decline, real-estate transaction, sales and all other are forecast to rise in FY 2024. Real-estate transaction is projected to recover from a 33.2 percent fall in FY 2023 to grow by 1.5 percent or \$32 million in FY 2024, to a level of \$2.20 billion. This growth is primarily due to the real property transfer tax, which increases by \$65 million. However, the mortgage recording tax decreases by \$33 million, resulting in a net increase of \$32 million. Both taxes are projected to grow over the remainder of the plan period, with a combined increase of \$503 million over the financial plan period. Sales and all other taxes are projected to grow positively each year of the plan, although growth slows for FY 2024 and beyond. Sales tax is projected at \$9.77 billion in FY 2024 and increases by \$1.83 billion over the plan, and all other is projected at \$3.08 billion, an increase of \$469 million over the plan.

Offsetting some of the decline in nonproperty tax is a projected increase of 3.4 percent in property tax in FY 2024. However, this growth is below the 6.9 percent growth projected for FY 2023, reflecting the slowdown in FY 2024 valuations on the final assessment roll.

In general, the June plan tax revenue forecast projects weak to moderate growth, with overall tax revenues performing below trend. This reflects the city's assumption of weak economic growth in 2023 and the subsequent decline in FY 2024 tax revenues. As

⁶ Class 1 consists of one-, two- and three-family residential properties and small condominiums. Class 2 comprises all other residential properties, including cooperatives, condominiums, and multi-family rentals. Class 3 represents utility real properties. Class 4 consists of all other real properties, such as office buildings, factories, stores, and vacant lands.

shown in Table 8, the city expects most taxes to perform well below ten-year annual trend over the plan period. Total tax revenue is projected to grow at a meager 1.3 percent a year over the plan period compared with ten-year trend growth of 4.8 percent a year. Property tax revenue, which weakens in the outyears of the plan, is projected to experience annual plan growth of 1.3 percent, significantly lower than the 5.1 percent trend growth. The weak growth likely reflects the uncertainty surrounding commercial real estate and possibly Class 2 real estate that started to show a slowdown in the FY 2024 assessment roll as rising rates eat into profit margins.

Similarly, nonproperty tax is expected to underperform with an annual growth rate of 1.8 percent, compared with trend of 5.1 percent. The weakness in nonproperty tax stems mainly from PIT and business taxes. PIT is projected to significantly underperform trend growth of 6.9 percent, increasing by only 0.8 percent per year over the plan period due to anticipated decline in FY 2024 and slower growth in the outyears. Business tax is expected to experience negative growth of 1.4 percent a year over the plan period, declining by \$453 million between FY 2023 and FY 2027, and falling to \$403 million below FY 2022 level.

Sales tax continues to be the strongest performer, with a projected annual growth of 4.5 percent, surpassing the 3.8 percent ten-year trend growth. Real-estate transaction, while projected to grow by 5.4 percent a year, remains below FY 2022 level by \$572 million at the end of the plan period. All other tax collectively exceeds trend growth, growing 3.8 percent over the plan period compared to the 1.5 percent trend growth. While most taxes recover in the outyears, total tax revenue growth continues to remain below trend for FYs 2024–27.

Table 8. June Modification Tax Revenue Growth Rate Assumptions

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Average Ann. Gr.	10-Yr. Ann Gr. FYs 2013–22
Property	6.9%	3.4%	(1.0%)	0.8%	1.9%	1.3%	5.1%
PIT	3.0%	(13.1%)	7.9%	3.7%	6.2%	0.8%	6.9%
Business	0.6%	(6.8%)	0.3%	(0.2%)	1.3%	(1.4%)	3.9%
Sales	11.5%	2.6%	5.6%	5.7%	4.1%	4.5%	3.8%
Real-Estate Trans.	(33.2%)	1.5%	8.2%	5.1%	6.9%	5.4%	6.6%
All Other	17.7%	6.6%	3.2%	2.7%	2.8%	3.8%	1.5%
Audit	53.2%	(44.5%)	0.0%	0.0%	0.0%	(13.7%)	(1.9%)
Nonproperty	2.3%	(5.9%)	5.4%	3.4%	4.5%	1.8%	5.1%
Total	4.9%	(2.5%)	2.4%	2.2%	3.3%	1.3%	4.8%

Note: Data in table is not adjusted for tax programs.

While the FCB is not forecasting a recession, we do anticipate an economic slowdown in the latter half of 2023, with a gradual improvement for 2024. Despite tax revenue collections through May surpassing FY 2022 collections over the same period by 5.2 percent, there are signs of weakening since the beginning of 2023. Over the last five months through May, total collections have fallen below FY 2022 levels for three months, with nonproperty collections falling below FY 2022 levels for four months and property tax collections for three months. Even sales tax revenue, which consistently posted double-digit monthly growth, saw single-digit growth the last two months. If the anticipated economic slowdown materializes, this recent deceleration in tax revenues may persist. Furthermore, the uncertainty surrounding commercial real estate is also expected to

continue to impact real estate tax revenues over the financial plan period. In light of our anticipation of a slowdown in the economy in the latter half year, we project that FY 2024 tax revenues will remain essentially flat relative to FY 2023, and as a result we show an offset of about \$2 billion in FY 2024, as shown in Table 3 on page 5.

Miscellaneous Revenues

Miscellaneous revenues in the FY 2024 Adopted Budget total \$5.82 billion, a modest increase of \$21 million from the Executive Budget. This increase is primarily due to a \$20 million increase in water and sewer charges to reimburse the city for expenditures related to the operation and maintenance of the water delivery and waste disposal system of the city.

However, miscellaneous revenues in FY 2024 are expected to be \$234 million lower than FY 2023. Most of the decline in income revenues is due to a drop of \$276 million in fines and forfeitures with parking violation fines declining by \$110 million and speed camera fines falling by \$118 million. In addition, revenues from franchise and other privileges, as well as interest income are projected to fall by \$62 million, and \$42 million, respectively.

From FYs 2024–27, miscellaneous revenues are projected to gradually decline to \$5.53 billion in FY 2027, as shown in Table 9. Driving the decline is the drop in interest income, which is projected to fall by \$211 million, reflecting the city's assumption that the federal funds rate will peak in 2023 and begin to decline in 2024.

Table 9. Miscellaneous Revenues

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Cost Based Charges					
Charges for Service	\$904	\$1,021	\$1,025	\$1,028	\$1,029
Licenses	78	66	63	67	64
Permits	296	298	303	303	303
Subtotal Cost Based Charges	\$1,278	\$1,385	\$1,391	\$1,398	\$1,396
Water and Sewer Charges	1,797	1,862	1,815	1,813	1,807
Fines and Forfeitures	1,454	1,178	1,174	1,182	1,182
Franchises and Other Privileges	392	330	340	343	326
Interest Income	477	436	318	237	225
Miscellaneous	384	368	340	343	339
Rental Income	269	258	261	258	258
Total	\$6,052	\$5,818	\$5,637	\$5,573	\$5,533

Numbers may not add due to rounding.

Federal and State Aid

Federal and state aid combined, account for more than a quarter of the FY 2024 Adopted Budget. A significant portion of the federal and state aid is allocated to the Department of Education and social services agencies budgets — 72 percent of federal aid and 85 percent of state aid.⁷ Federal aid accounts for about 13 percent of the DOE

⁷ The social agencies include the Administration for Children's Services, the Department of Social Services, the department of Homeless Services, and the Department for the Aging.

budget and 18 percent of the social agencies' budgets, and state aid accounts for about 42 percent of DOE budget and 12 percent of the social agencies' budgets.

Federal Aid

Federal aid totals \$10.32 billion, a modest downward revision of \$91 million from the Executive Budget. The change reflects a reduction of \$465 million in previously assumed federal support for the cost of providing for asylum seekers. The April plan had assumed federal support of \$600 million. The reduction leaves \$135 million of federal support for asylum seekers in the FY 2024 Executive Budget, reflecting the federal funds already allocated to the city. Partially offsetting are other increases in federal aid including the roll of \$246 million of ARPA Elementary and Secondary School aid from FY 2025 into FY 2024, and an upward revision of \$111 million in ARPA Higher Education aid.

Federal aid is projected to fall to \$7.03 billion by FY 2027, a drop of \$3.29 billion from FY 2024. Driving this decline is the wind-down of federal COVID stimulus and relief aid. COVID stimulus and relief aid is projected to drop by \$3.01 billion between FY 2024 and FY 2027, from \$3.02 billion to \$10 million.

State Aid

The city projects that FY 2024 state aid will total \$18.05 billion, \$496 million more than the Executive Budget. The increase stems primarily from a net increase of \$416 million in education aid. Significant increases projected by the city include \$285 million in foundation aid, \$99 million in transportation aid, and the rollover from FY 2023 into FY 2024 of \$73 million of smart school bond act spending. State aid is projected to fall by \$512 million between FY 2024 and FY 2027, reflecting the city's plan assumption that spending on asylum seekers and the attendant state support will not extend beyond FY 2025. The plan assumes \$562 million of state support in FY 2024, and \$290 million in FY 2025. Net of the spending on asylum seekers, the city expects state aid to remain relatively flat between FY 2024 and FY 2027 with a marginal increase of \$50 million by FY 2027.

The June plan also includes additional city-funds spending from new initiatives in the state enacted budget that were not included in the April plan.⁸ The plan estimates that these initiatives will raise city-funds spending by \$435 million in FY 2024 growing gradually over the remainder of the plan period to \$609 million by FY 2027. This includes: increased costs from the mobility payroll tax of \$62 million in FY 2024, growing to \$70 million by FY 2027; state retention of ACA eFMAP of \$129 million in FY 2024, growing to \$343 million by FY 2027; increased NYC Paratransit contribution of \$165 million in both FY 2024 and FY 2025; and increased 18-B indigent legal service compensation of \$48 million in each of FY 2024 through FY 2027.

⁸ The June plan includes state support of \$1 billion (\$438 million in FY 2023 and \$562 million in FY 2024) for the cost of providing for asylum seekers that is appropriated in the state enacted budget. The plan also assumes that the state will continue supporting 29 percent of the cost related to asylum seekers in the 2024–25 state budget.

Expenditures

The FY 2024 Adopted Budget is projecting \$107.115 billion of total-funded expenditures, \$3.714 billion lower than projected FY 2023 expenditures of \$110.829 billion. City-funded expenditures in FY 2024 are expected to be \$76.942 billion, a decline of \$2.37 billion compared to projected FY 2023 spending of \$79.312 billion. The lower spending between FYs 2023 and 2024 is largely due to the use of \$5.479 billion of budget surplus in FY 2023 to prepay debt service and retiree healthcare expenses in FY 2024. Absent these prepayments, total-funded expenditures are \$1.13 billion higher in FY 2024 compared to FY 2023, and city-funded spending is \$2.473 billion greater.⁹

The June financial plan assumes total-funded expenditures, as shown in Table 10, will increase from \$107.115 billion in FY 2024 to \$116.708 billion in FY 2027 for a total growth of \$9.593 billion, or 8.96 percent. The average annual growth over this period is 2.9 percent. In comparison, the April financial plan projected expenditures over FYs 2024–27 rising from \$106.689 billion to \$115.61 billion, a lower growth of \$8.921 billion, or 8.36 percent.

Table 10. April to June Financial Plan Total-Funded Changes

(\$ in millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
April Plan	\$106,689	\$110,052	\$112,140	\$115,610
City Funds	\$21	\$884	\$885	\$924
Federal, State, & Other Funded	<u>405</u>	<u>(70)</u>	<u>176</u>	<u>174</u>
Total-Funded Increase	\$426	\$814	\$1,061	\$1,098
June Plan	\$107,115	\$110,866	\$113,201	\$116,708
Numbers may not add due to rounding				

City-funded expenditures in the June financial plan between FYs 2024 and 2027, as shown in Table 11 on page 23, increase from \$76.942 billion to \$90.339 billion, or \$13.397 billion, exhibiting growth of 17.41 percent, and average annual growth of 5.5 percent.

Table 11. April to June Financial Plan City-Funded Changes

(\$ in millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
April Plan	\$76,921	\$82,652	\$85,982	\$89,415
Agencies	\$1,112	\$354	\$340	\$342
Council Initiatives	528	--	--	--
Asylum Seekers	465	--	--	--
State Budget Impact	435	557	572	609
Debt Service	<u>(75)</u>	<u>(27)</u>	<u>(27)</u>	<u>(27)</u>
Net City-Funded Increase	\$2,465	\$884	\$885	\$924
FY 2023 Prepayment	(2,444)	--	--	--
June Plan	\$76,942	\$83,536	\$86,867	\$90,339
Numbers may not add due to rounding				

⁹ FY 2023 is adjusted for the net difference between FY 2022 prepayments of \$6.114 billion and FY 2023 prepayments of \$5.479 billion.

In contrast, the April financial plan projected lower growth between FYs 2024 and 2027, as shown in Table 11, increasing from \$76.921 billion to \$89.415 billion, or \$12.494 billion for a growth rate of 16.24 percent.

City-Funded Agency Expense Changes

As shown in Table 11, city-funded agency spending increases between the April and June financial plans by \$1.112 billion in FY 2024, \$354 million in FY 2025, and about \$340 million in each of FYs 2026 and 2027. The financial plan restores over \$30 million of Program to Eliminate the Gap (PEG) savings from previous plans to FY 2024 of which \$20.5 million is added back to libraries. Much of the additional spending beyond the PEG restorations in FY 2024 is to support agency programs and new needs.

The financial plan adds \$262 million in FY 2024 to the City Family Homelessness and Eviction Prevention Supplement (CityFHEPS). This program, the largest city-funded rental assistance program in the nation, provides rent supplements for families moving from shelters to stable housing, or who are in danger of losing their current housing.¹⁰ The Mayor issued emergency rules on June 16, 2023, eliminating the 90-day length-of-stay requirement for individuals and families in shelters to be eligible for CityFHEPS housing vouchers, vastly expanding the number of individuals and families in shelters who will now be able to access city-funded rental assistance.¹¹

Another area of higher expense is increased funding of \$150 million for the Carter Case requirements in FY 2024. Under federal law, children with special needs are entitled to a free and appropriate education in the least restrictive educational environment. The 1993 United States Supreme Court's decision in *Florence County School District Four v. Carter* affirmed that parents who disagree with their child's individualized education plan developed by their public-school district's Committee for Special Education can enroll their child in a private school they believe better meets their child's special needs. Parents can then seek reimbursement from the school district for tuition costs at the chosen school. Also in education for FY 2024 is increased funding of \$20 million to hold individual schools harmless for drops in enrollment keeping the school's budget flat in the 2023–24 school year, and an additional \$14 million is slated to add support to community schools, which cater to students with challenges that impact their ability to learn, explore, and develop to their greatest potential.

Elsewhere, one-time funding in FY 2024 of \$40 million is added to the Department of Cultural Affairs budget, \$27.3 million to the Economic Development Corporation, and \$16 million for PromiseNYC, which is a new program providing access to childcare services for undocumented children and their families who previously didn't qualify for other state or federal programs due to their immigration status.

Over FYs 2024–27, there are several funding needs. Added monies, \$40.6 million in FY 2024 and \$30.6 million in each of FYs 2025–27, are directed to Right to Counsel, a law that gives low-income tenants facing evictions in housing court access to an attorney.

¹⁰ Source: NYC Human Resources Administration Department of Social Service.

¹¹ The 90-day emergency rule is a temporary order in effect for 60 days from June 16, 2023, to allow the city's Human Resource Administration time to prepare a permanent rule. However, on July 13, 2023, the City Council voted to override the Mayor's veto of legislation to reform the CityFHEPS rental assistance voucher program. The four-bill legislative package includes the removal of barriers to CityFHEPS vouchers and permanently ends the 90-day rule.

The June financial plan also provides support of \$36.9 million in FY 2024, \$56.7 million in FY 2025, and \$47.6 million in each of FYs 2026 and 2027 for the Supervised Release program. This is a court-ordered program that provides community-based supervision and support for individuals with pending cases in the city's criminal or Supreme Court. The purpose is to help ensure a person's return to court, which is the primary criteria used by judges when making bail decisions under state law.

Further funding of \$20 million in each of FYs 2024–27 is for the Fair Fares program that was created to help low-income eligible individuals living in the city manage their transportation costs by providing a low-cost MetroCard. In education, allocations of \$19.6 million and \$15 million in each of FYs 2024–27, respectively, provide added finances for nurses that tend to medically fragile children, and for early childhood education. Lastly, the Work, Learn, and Grow initiative gains \$22.5 million in each of FYs 2024–27 to offer young people from select public schools in the city an opportunity to strengthen work readiness skills, explore careers, and receive academic support, including guidance on postsecondary education and the potential to earn college credit.

City Council Initiatives

The June financial plan includes funding for City Council initiatives totaling \$528 million in FY 2024. The discretionary funding targets new initiatives and increases support for programs in areas such as community safety and victim services, substance abuse prevention, affordable housing and foreclosure prevention, criminal justice, senior services, and community development. Each year, City Council members allocate discretionary funds to not-for-profit organizations and designate funding directly to city agencies to meet local needs and fill gaps in city services.

As shown in the figure to the right, about two-fifths, or \$209 million, of funding is allocated to Community and Development, which includes small business development, food, environmental and young women's initiatives, public safety, antipoverty, and local programs. Citywide Services, totaling \$145 million, targets funding for senior, criminal justice, immigrant youth, domestic violence, legal, parks and recreation, veteran, and homeless services.

City Council Initiatives (\$ in millions)	
Community and Development	\$209
Citywide Services	145
Education	62
Cultural Organizations	50
Health Services	49
Youth and Aging	11
Total Initiatives	\$528
Numbers may not add due to rounding	

Education, at \$62 million, combines the DOE and the City University of New York (CUNY) providing support for students' social and emotional needs, educational programs, crisis management, community schools, and college and career readiness in the DOE. In CUNY, the bulk of City Council funding, \$16.4 million, is to support the Peter F. Vallone Academic Scholarship.¹² Lastly, Cultural Organizations and Health Services are allotted about \$50 million each, and Youth and Aging agencies receive \$11 million in total.

¹² The Peter F. Vallone Academic Scholarship (formally known as the New York City Council Merit Scholarship) rewards city high school graduates who have proven their ability to succeed academically while they were in high school.

The Impact of Asylum Seekers

Since April 2022, over 95,600 asylum seekers have arrived in the city with more than 56,600 presently being cared for as of July 30, 2023. Including the asylum seekers, the city is providing shelter and other services to more than 107,900 individuals. In comparison, FY 2022 welcomed just about 4,000 asylum seekers from April 2022 through July 2022. The total number of asylum seekers currently in the city extends well beyond those in the city's care when accounting for people who are staying with family, friends, and other networks.

The family composition of asylum seekers in the city's care as of July 30, 2023, are Families with Children at 40,600, Adult Families at 4,400, and Single Adults at 11,600. The Department of Homeless Services (DHS) is providing many of these services with approximately 30,900 currently under the city's care. In addition to shelters, Humanitarian Emergency Response and Relief Centers (HERRCs) operated by Health + Hospitals are providing shelter services to 16,110 individuals.¹³ Beyond shelter needs, services are being supplied by the Departments of Emergency Management, Housing Preservation and Development, and Youth and Community Development, which combined are actively caring for more than 9,590 asylum seekers.

The responsibility for providing shelter and other services to the asylum seekers has severely strained city resources. The Mayor declared, through an emergency executive order, a State of Emergency on October 7, 2022, which instructed all city agencies to coordinate efforts to respond to asylum seekers and take appropriate and necessary actions to preserve health and public safety.

Table 12. Cost Projections for Asylum Seekers FYs 2023–25

(\$ in millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Homeless Services	\$714	\$1,786	\$607
Health + Hospitals	500	748	258
Emergency Management	96	160	55
Citywide Admin Services	58	--	--
Housing Preservation	32	147	51
Social Services	25	29	19
Information Technology	31	30	10
Health and Mental Hygiene	4	--	--
Other Agencies	--	<u>5</u>	<u>2</u>
Total Cost	\$1,461	\$2,905	\$1,002

Numbers may not add due to rounding

The city expects that total related costs will be \$5.368 billion over FYs 2023–25. As shown in Table 12, much of this cost is anticipated to be in FY 2024 at \$2.905 billion. The bulk of services for asylum seekers are shelter provisions that are being provided by DHS and Health + Hospitals, which combined are projected to cost \$4.613 billion over FYs 2023–25. As of July 30, 2023, the city has opened 194 emergency shelters, including 13 HERRCs.

¹³ In a recent development, a new policy has been enacted to limit shelter stays for arriving asylum seekers. The city will provide a 60-day notice to adult asylum seekers to find alternative housing paired with intensified casework services to help adult asylum seekers explore other housing options. If no alternative housing can be found, reapplication to shelter must be submitted by the individual.

Actual FY 2023 expenditures for asylum seekers through June of \$1.448 billion, as shown in the figure to the right, are in alignment with the budgeted amount of \$1.461 billion. Nearly all these expenditures, \$1.240 billion in total, is for services provided by DHS and Health + Hospitals.

Asylum Seeker Expenditures in FY 2023	
City-funded (\$ in millions)	
Homeless Services	\$764
Health + Hospitals	476
Emergency Management	92
Citywide Admin Services	38
Housing Preservation	38
Information Technology	31
Other Agencies	5
Health and Mental Hygiene	4
Total Expenses	\$1,448

Expenditures related to arriving asylum seekers and under the city's care are growing at an accelerated pace, about \$200 million a month.

The city estimates that the per diem cost is \$383 per household. Households are defined as the sum of Families with Children, Single Adults, and Adult Families in shelter. Costing the most in FY 2023 were housing, rent, and initial outfitting at \$545 million. Other related services and supplies add \$542 million. Also included are technology and administrative expenditures of \$143 million, and medical services and food at \$216 million combined.

Table 13. Projected Cost of Asylum Seekers by City, State and Federal Share

(\$ in millions)			
	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
City	\$1,023	\$2,208	\$712
State	438	562	290
Federal	=	135	=
Total Cost	\$1,461	\$2,905	\$1,002
Numbers may not add due to rounding			

As shown in Table 13, the projected city-funded share of the cost for asylum seekers is \$1.023 billion in FY 2023, growing substantially to \$2.208 billion in FY 2024, but reducing to \$712 million in FY 2025. The FY 2024 Enacted State Budget allocates \$1 billion over FYs 2023 and 2024 to offset 29 percent of expenditures related to providing for asylum seekers. In FY 2025, the city assumes that state reimbursement will continue in next year's state budget funding \$290 million of the cost.

In addition to state aid, the city is expecting receipt of about \$135 million in federal aid allocated by the Federal Emergency Management Agency (FEMA) in FY 2024. The FEMA aid represents \$105 million in grant funding Shelter and Services Program Awards and \$30 million of Emergency Food and Shelter Program-Humanitarian Awards that was allocated to the city. Nationwide, FEMA is expected to allocate about \$800 million to help defray a partial amount of the cost for asylum seekers of which the city had initially expected to receive a significant portion. The city budgeted the receipt of \$600 million of FEMA aid in the April financial plan for FY 2024. With no indication that the city will receive federal support for asylum seekers expenditures beyond the \$135 million of FEMA grants, the city shifted \$465 million of anticipated federal-funded spending in FY 2024 to city-funded spending.

Collective Bargaining

The city has reached a labor agreement with the United Federation of Teachers (UFT), which was ratified in July, tentative agreements with the Uniformed Officers Coalition and Teamsters Local 237, and the New York State Nurses Association. Subject

to the Uniformed Officers Coalition and Teamsters Local 237 contract ratifications, the city will have settled contracts with nearly 80 percent of the unionized workforce in the 2021–2026 bargaining round.¹⁴

The UFT contract is retroactive beginning on September 14, 2022 and expires November 28, 2027. The UFT contract includes wage increases of three percent for each of the first three years of the contract, 3.25 percent in the fourth year, and 3.5 percent in the fifth year. The agreement also includes a \$3,000 lump sum ratification bonus for UFT members and an annual retention payment to be paid to eligible members in May of each year beginning with \$400 in 2024, \$700 in 2025, and \$1,000 in 2026 and every year thereafter.

The Uniformed Officers Coalition and Teamsters Local 237 tentative agreements follow the patterns set by the PBA and DC 37 contracts, respectively. Each are five-year deals with the Uniformed Officers Coalition including wage increases ranging from 3.25 percent to four percent paid on the first day of each year, and Local 237 including three percent for each of the first four years of the contract and 3.25 percent in the fifth year. The agreement also includes a \$3,000 lump sum ratification bonus to eligible Local 237 members. Additionally, the contract specifies the elimination of two salary steps from the schedule for school safety agents and special officers effective October 2023. This provision will allow these two groups to reach top pay after five years of service rather than the current seven years.

Uniformed Overtime

Overtime expenses in Uniformed Services (Police, Fire, Correction and Sanitation Departments), including uniformed and civilian personnel, are expected to total \$1.837 billion in FY 2023, dropping to \$1.069 billion in FY 2024, \$1.038 billion in FY 2025, and \$1.036 billion in each of FYs 2026 and 2027. Excluding civilian personnel, overtime costs for uniformed personnel are projected to be \$1.626 billion in FY 2023, declining to \$949 million in FY 2024, \$920 million in FY 2025, and \$918 million in each of FYs 2026 and 2027.

Through June 2023, actual overtime expenditures for only uniformed personnel totaled \$1.564 billion. Based on these actuals the FCB's risk assessment of FY 2023 uniformed personnel overtime spending, projects a funding surplus of \$62 million, as shown in Table 3 on page 5. In contrast, our assessment of uniformed personnel overtime spending in FYs 2024–27 indicates shortfalls of \$615 million in FY 2024, \$644 million in FY 2025, and \$647 million in each of FYs 2026 and 2027.

Education

The June financial plan projects total-funded spending excluding intracity expenses in the DOE of \$31.486 billion in FY 2024, decreasing to \$30.614 billion in FY 2025, before rising to \$31.093 billion in FY 2026, and \$31.322 billion in FY 2027, representing a decrease of \$164 million between FYs 2024 and 2027, or negative 0.5 percent. The decrease is primarily due to a drop of about \$2 billion in federal-funded expenditures as a result of the expiration of ARPA Elementary and Secondary School supported spending. Average annual growth over the plan is negative 0.2 percent.

¹⁴ Settlements of approximately 80 percent include the UFT's Nurses and Therapists Chapter voting down its contract.

However, city-funded expenditures are expected to increase each year from \$14.137 billion in FY 2024, rising to \$15.179 billion in FY 2025, \$15.853 billion in FY 2026, and \$16.082 billion in FY 2027, exhibiting a growth of \$1.946 billion, or 13.8 percent. Average annual growth in city-funded expenditures over this period is 4.4 percent.

Over FYs 2024–27, state aid is relatively flat decreasing from \$13.119 billion to \$13.047 billion, respectively, or about \$73 million. The largest component of state funding is foundation aid. Foundation aid supports public school district expenditures and is the main education operating aid formula used by the state. It is focused on allocating funds equitably to all school districts, especially high-need districts, based on student need, community wealth, and regional cost differences. The FY 2024 enacted state budget allocates \$9.427 billion to the city for FY 2024, which is \$493 million above FY 2023.

Between the April and June financial plans, the city has added \$234.031 million to the DOE's budget in FY 2024 mainly to fund higher projected spending for the Carter Cases of \$150 million, and a combined \$34 million in additional compensation to public schools for drops in enrollment and support the work of community schools. Furthermore, City Council initiatives to support various educational programs add \$40.22 million to the DOE FY 2024 budget. Over FYs 2025–27, the DOE budget is revised upward by \$45.437 million in FY 2025, and by \$40.037 million in each of FYs 2026 and 2027 to mostly cover combined higher spending estimates of \$34.614 million for nurses working with medically fragile children and the increase in daytime hours for Early Childhood Education.

The FY 2024 Enacted State Budget authorized the reissuance of fourteen school charters that had previously been surrendered, revoked, or terminated. The June financial plan assumes additional spending associated with the additional charter schools of \$24 million in FY 2025, \$63 million in FY 2026, and \$92 million in FY 2027, rising to \$175 million per fiscal year when all schools are fully operational. The estimate assumes that all fourteen charter revivals are kindergarten through grade five, have five hundred students per school, and will begin to open in FY 2025.

Not included in the June financial plan is the state mandate to reduce class sizes in public schools for grades kindergarten through twelve. The new class sizes will range from 20 pupils maximum (from the current 25) in kindergarten classes to 25 students in grade 12 (from the current 34). Enacted into law in September 2022, Chapter 556 of the State Laws of 2022 requires the city to establish a class size reduction plan to be fully implemented by September 2028. The law replaces legislation included in the Contracts for Excellence that had required the city to create a plan to reduce average class sizes, but which did not set forth specific class size caps.

The class size caps must be fully achieved by 2028 following a phase-in process over the next few years, with progress towards compliance targeting increases at minimum by 20 percent of classes across the city each year. Specifically, excluding special education classes and exempted classes, 20 percent of classrooms (not individual schools) must comply beginning in school year 2023–24, followed by 40 percent the subsequent school year 2024–25, 60 percent in school year 2025–26, 80 percent in school year 2026–27, and 100 percent in the final school year 2027–28.¹⁵ Currently, roughly 39 percent of classes across New York City meet the law's requirements.

¹⁵ Exemptions to the class size caps include limited space, over-enrolled students, license area shortage, severe economic distress, and elective & specialty classes.

The DOE estimates that staffing costs alone would add up to \$1.3 billion annually for new teachers once schools are fully phased-in. Based on current enrollment, the DOE can meet the phase-in target for the first two full school years, 2023–24 and 2024-25, with no additional costs. The FCB estimates the cost to the city in FY 2026 will be about \$433 million and in FY 2027 \$863 million. This is based on the need to hire an additional 9,000 teachers in grades K–12 to ensure that class size requirements are met. These costs include estimates related to staff salaries, school budget realignments and fringe and pension costs for new staff.

Budget Risks

The June financial plan assumes a balanced budget in each of FYs 2023 and 2024, and budget gaps of \$5.079 billion in FY 2025, \$6.836 billion in FY 2026, and \$7.9 billion in FY 2027. As shown in Table 3 on page 5, the FCB estimates gaps of \$6.526 billion in FY 2025, \$9.913 billion in FY 2026, and \$12.568 billion in FY 2027. However, the FCB estimates the city will have surpluses of \$70 million in FY 2023, and \$702 million in FY 2024.

In Health and Welfare agencies, potential budget risks sum to \$226 million in FY 2024 growing to \$1.492 billion in FY 2027. Expenditures related to the provision of services to asylum seekers is a main component of this risk, which the FCB projects will exceed the city projections by an additional \$290 million in FY 2025 and \$710 million in each of FYs 2026 and 2027 due to uncertainty in residual expenditures but under the assumption that state aid will continue. In addition, the FCB estimates education risks of \$336 million in FY 2024 growing to \$1.89 billion in FY 2027. A main contributor to the risk is the state mandate to reduce class sizes. As discussed in “Education” beginning on page 27, the FCB estimates that meeting the mandate will cost the city \$433 million in FY 2026, and \$863 million in FY 2027. Another area of risk is uniformed services overtime that the FCB projects would increase city-funded expenditures by \$615 million in FY 2024 rising to \$647 million by FY 2027. However, the FCB estimates pension costs to be lower by \$51 million in FY 2025, \$116 million in FY 2026, and \$177 million in FY 2027 based on preliminary FY 2023 pension investment returns.

As shown in Table 3 on page 5, the FCB’s estimated expenditure risk in the plan is projected at \$1.177 billion in FY 2024, \$2.083 billion in FY 2025, \$3.209 billion in FY 2026, and \$3.852 billion in FY 2027. The FCB’s higher revenue estimates offset some of these risks in FY 2024. As a result, the FCB projects a budget surplus in FY 2024 of \$702 million and a net risk of \$6.526 billion in FY 2025 and \$9.913 billion in FY 2026. In contrast, the FCB’s lower revenue forecast raises the net risk assessment in FY 2027 to \$12.568 billion.

The Capital Program and Associated Debt Service

The capital program includes the city’s long-term plans to maintain infrastructure and fund community needs. As the city does not update the capital program in the June financial plan, the capital plan and strategy remain unchanged from the April 2023 executive budget. The city’s Adopted Capital Commitment Plan is usually released in the fall. In April, the city released a Five-Year Capital Plan for FYs 2023–27 in which total targeted commitments amounted to \$89 billion, an increase of \$1.1 billion compared to

the January 2023 plan.¹⁶ In April, the city also released the Ten-Year Capital Strategy for FYs 2024–33, which is discussed later in this section. Some of the largest areas of the program contain capital projects to support the city’s established priorities including transportation, housing and education. The targeted commitment levels in the five-year capital plan are expected to produce growing debt service costs from general obligation (g.o.) bonds sold by the city and Future Tax Secured (FTS) bonds issued by the New York City Transitional Finance Authority (NYCTFA). Consequently, financing the capital program will require an increasing portion of the city’s tax revenues to pay debt service costs, which is projected to reach over 12 percent by FY 2027.

FYs 2023–27 Five-Year Capital Plan Financing

As illustrated in the figure to the right, most of the five-year capital plan is funded with city resources at 95 percent, with 80 percent of the total amount of commitments scheduled to be funded with tax-supported city g.o. and NYCTFA FTS bonds, and 15 percent with revenue bonds backed by city water and sewer user fees sold by the New York City Water Finance Authority (NYW) for water and sewer projects undertaken by the Department of Environmental Protection. The remaining five percent is funded with noncity resources.

FYs 2023–27 Capital Plan by Funding Source (\$ in billions)			
April 2023 Targeted Totals	Capital Commitments	Percent Of Total	Plan Change
City-Funded			
G.O. and NYCTFA	\$71.4	80%	\$1.7
NYW	<u>\$13.1</u>	<u>15%</u>	<u>(\$0.7)</u>
Subtotal	\$84.5	95%	\$1.0
Noncity-Funded	<u>\$4.4</u>	<u>5%</u>	<u>\$0.1</u>
Total	\$88.9	100%	\$1.1
Numbers may not add due to rounding.			

Since the January 2023 plan, the city has added \$1.1 billion of commitments to its FYs 2023–27 five-year capital plan, bringing the total targeted projection to \$88.9 billion, as illustrated in the figure above. Of the city-funded portion, commitments supported by city tax-secured financings were allotted an additional \$1.7 billion, which was partially offset by a reduction in commitments funded with securities issued by the NYW of approximately \$700 million. Commitments supported with noncity sources were increased by about \$100 million in the current capital plan.

FYs 2023–27 Debt Service Costs

Of the \$88.9 billion in targeted capital commitments projected for FYs 2023–27, \$71.4 billion are planned to be financed with tax-secured bonds. Such a sizeable capital plan will require ample levels of debt to be issued, resulting in mounting debt service costs and consuming a growing portion of the city’s operating budget.¹⁷ The June financial plan

¹⁶ The financial plan contains targeted and authorized levels of capital commitments. Targeted commitments are the amounts the city realistically expects to enter into given logistical constraints. The projected financing schedule and debt service costs are based on these amounts. The city itemizes its capital program by functional areas based on the authorized levels, which we discussed in detail in “The Capital Program and Related Debt” in the FCB Staff Report FY 2024 Executive Budget and Financial Plan released on May 24, 2023.

¹⁷ For a discussion of the increase in city and NYCTFA outstanding debt, see “The Capital Program and Related Debt” in the FCB Staff Report FY 2024 Executive Budget and Financial Plan released on May 24, 2023.

for FYs 2023–27 projects the city will issue a combined total of \$53.8 billion of g.o. bonds secured by real estate taxes and FTS bonds issued by NYCTFA secured by personal income and sales taxes. The current scheduled amount of borrowing is \$800 million higher than the amount projected in the January 2023 plan. The portion of the city’s capital program financed by tax-supported debt is represented in the operating budget as annual debt service costs.

As illustrated in Table 14, the June financial plan city-funded debt service costs, net of prepayments, for the city and NYCTFA are projected to climb from \$7.3 billion in FY 2023 to \$9.6 billion in FY 2027.¹⁸ This reflects a 6.9 percent average annual growth rate for the FYs 2023–27 period, representing one of the fastest growing portions of the city’s operating budget. City-funded expenditures are projected to decline from \$79.3 billion in FY 2023 to \$76.9 billion in FY 2024, before rising to \$90.3 billion in FY 2027, resulting in an average annual growth rate of 3.3 percent. Accordingly, debt service costs as a share of the city-funded operating budget will enlarge from 9.2 percent in FY 2023 to 10.6 percent in FY 2027. Meanwhile, the city projects tax revenues will decrease from almost \$73 billion in FY 2023 to \$71.1 billion in FY 2024, then increase to \$76.9 billion in FY 2027, growing at a much slower pace relative to debt service, at an average annual rate of 1.3 percent. Consequently, the share of tax revenues that debt service will consume is forecasted to climb from 10.0 percent in FY 2023 to 12.4 percent in FY 2027.

Table 14. City-Funded Debt Service is Projected to Grow Faster Than City-Funded Expenditures and Tax Revenues

(\$ in millions)

June 2023 Financial Plan	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Average Annual Growth Rate
Debt Service	\$7,315	\$7,588	\$8,092	\$8,866	\$9,564	6.9%
Expenditures	79,312	76,942	83,536	86,867	90,340	3.3%
Tax Revenues	72,978	71,139	72,834	74,472	76,921	1.3%
Debt Service as a Percentage of:						
Expenditures	9.2%	9.9%	9.7%	10.2%	10.6%	
Tax Revenues	10.0%	10.7%	11.1%	11.9%	12.4%	

Despite expanding the capital plan and associated borrowing, the city has been able to keep the projected debt service burden under the 15 percent level determined to be affordable. Part of the city’s debt management approach is the use of conservative rate assumptions in making debt service projections. This approach in combination with the prior low interest rate environment created a financial cushion as actual costs on fixed and variable rate debt were considerably lower than projected. In addition, the city was

¹⁸ Total-funded debt service costs range from \$7.483 billion in FY 2023 to \$9.698 billion in FY 2027. The greater part of debt service is supported by tax revenues with a relatively small portion paid from noncity sources such as federal subsidies, state aid and swap receipts ranging from \$134 million to \$167 million in FYs 2023-27.

able to attain substantial refunding bond sale savings. However, in the current rising interest rate climate, debt service savings will be less available.¹⁹

The debt service costs are projected to accelerate as a portion of the operating budget and require an increasing percentage of tax revenues. Without effectively managing spending, the capital program may become unaffordable as there could be increasing pressure to support other expense areas while tax revenue growth is moderate. The city must develop a tangible plan to deal with the budget gaps beyond what the city is projecting in the June financial plan. The FCB projects a net risk of \$6.526 billion in FY 2025 and \$9.913 billion in FY 2026. The FCB's lower revenue forecast heightens the net risk assessment in FY 2027 to \$12.568, as presented in Table 3 on page 5.

Summary of the FYs 2024–33 Ten-Year Capital Strategy

The FY 2024 Ten-Year Capital Strategy calls for a total investment of \$164.8 billion in the city's capital stock over the FYs 2024–33 period.²⁰ The strategy encompasses the city's long-term investments and planning strategies for the ensuing ten years. The level and distribution of capital funding reflects the city's focus and priority to maintain infrastructure and modernize facilities, particularly in areas of transportation and environmental protection. In addition, the city has included substantial funding for projects to support neighborhood needs that focus on increasing affordable housing, and broaden access to education and cultural resources, such as parks. The major allocations of commitments in the ten-year capital strategy reflect the city's goals, with tax-supported funding increasing sizably relative to the prior strategy for most of these areas. The current strategy is expected to produce climbing debt from g.o. bonds issued by the city and FTS bonds sold by the NYCTFA. The city has deemed the resulting debt service affordable given projected levels of tax revenues over the ten-year period.

The total-funded authorized commitments in the strategy top the prior Ten-Year Capital Strategy for FYs 2022–31 by a net \$31 billion, making this the largest strategy ever. Presented in Table 15 on page 33 is a summary of the capital strategy by functional areas with commitments classified into the three lifecycle categories: state of good repair, program expansion and programmatic replacement revealing the city's priorities.²¹ The profile of the lifecycle categories shows 77 percent of the investments allocated for the repair and replacement of city's capital stock with the remaining 23 percent allocated for the expansion of assets. State of good repair capital projects represent the largest portion of commitments in the strategy, at \$89.9 billion or 55 percent, with a \$19.4 billion increase compared to the prior strategy. In this corrective maintenance category, transportation

¹⁹ As part of the June 2023 refunding bond sale, the city conducted a tender process to purchase back certain outstanding bonds from bondholders and remarketed those bonds to achieve additional savings. The tender process generated approximately \$26 million, or 24 percent of the total debt service savings achieved by the overall transaction. This was the first time the city exercised a tender option taking advantage of the current market conditions.

²⁰ In accordance with its charter, the city prepares and releases the biennial presentation of a strategy that identifies the capital goals and anticipated sources of financing for the ensuing ten-year period in its executive budget.

²¹ State of good repair or corrective maintenance represents essential repair work needed largely because of deferred maintenance; program expansion involves the addition of assets or services; and programmatic replacement or preventative maintenance includes the replacement of equipment and asset components at regular intervals at the end of their life cycle.

and transit projects total \$30.8 billion, education \$14.5 billion, housing \$12.5 billion, and cultural, libraries and parks \$10.9 billion. Meanwhile, commitments classified as program expansion aggregate to \$38.3 billion or 23 percent, a growth in funding of \$8.6 billion, with the largest allocations at \$14.5 billion for environmental protection, and housing at \$11.3 billion. Commitments for programmatic replacement projects amount to \$36.6 billion or 22 percent, an increase of \$3 billion, with sizeable distributions for public safety at \$13.2 billion and environmental protection at \$13 billion.²²

Table 15. Ten-Year Capital Strategies Lifecycle Comparison

(\$ in millions)

Apr. 23 Strategy vs Apr. 21 Strategy	State of Good Repair		Program Expansion		Programmatic Replacement		Total Program	
	Total	Change	Total	Change	Total	Change	Total	Change
Total Authorized Funds	\$89,917	\$19,421	\$38,277	\$8,588	\$36,585	\$3,024	\$164,778	\$31,033
Percent of Total	55%	2%	23%	1%	22%	(3%)	100%	
Transportation and Transit	30,841	8,549	--	--	2,772	518	33,613	9,068
Environmental Protection	1,562	205	14,465	5,461	12,978	672	29,006	6,337
Housing	12,543	4,353	11,321	4,386	--	--	23,864	8,739
DOE & CUNY	14,453	(502)	4,844	(3,118)	72	19	19,369	(3,602)
Gen. & Business Services, Equip. & Energy Efficiency	9,163	819	6,269	1,244	3,736	616	19,169	2,680
Public Safety	3,622	1,267	432	319	13,190	664	17,244	2,250
Cultural, Libraries & Parks	10,897	3,741	729	451	206	49	11,832	4,241
Health, Hospitals, Social Services & Sanitation	6,834	989	215	(154)	3,631	485	10,680	1,321

Numbers may not add due to rounding.

Capital investments are funded heavily by tax-supported debt with the distribution revealing 80 percent of the strategy projected to be financed with bonds issued by the city and NYCTFA. Table 16 on page 34 shows that of the net \$31 billion expansion in commitments, \$25 billion is projected to be financed by tax-supported debt undertaken by the city and the NYCTFA; and \$6.3 billion financed by the NYW for the maintenance, mandated work and upgrades to the water and sewer system. Several areas, including bridges and highways, housing and parks, make up approximately 82 percent of the commitment growth financed by the city and NYCTFA. Tax-supported commitments increased substantially for bridges and highways, with a \$8.6 billion growth as the citywide restoration and maintenance of roads and bridges have been given high priority. Additionally, tax-supported commitments increased for housing (Department of Housing Preservation and Development and New York City Housing Authority), and parks by a combined \$11.9 billion, reflecting the city's commitment to providing and preserving affordable housing, as well as creating and improving open public spaces.

Markedly, tax-supported commitments for the Department of Education (DOE) projects decreased by \$4.5 billion compared to the prior strategy. The School

²² For a more detailed description of the project work included in the functional areas, see "The Capital Program and Related Debt" in the FCB Staff Report FY 2024 Executive Budget and Financial Plan released on May 24, 2023.

Construction Authority (SCA) is developing plans for the upcoming FY 2025–2029 Five-Year Capital Plan, which includes creating new seats for projected enrollment growth and areas of overcrowding, as well as investments in infrastructure for enhanced educational services and better facilities. When the new five-year plan is established, commitments for DOE are expected to increase in the city’s future capital program.

Table 16. The Majority of the Current Strategy Increase is to Tax-Supported Capital Commitments

(\$ in millions)

Apr.23 Strategy vs Apr.21 Strategy	<u>Tax-Supported</u>		<u>NYW-Funded</u>		<u>Noncity-Funded</u>		<u>Total-Funded</u>	
	<u>Total</u>	<u>Change</u>	<u>Total</u>	<u>Change</u>	<u>Total</u>	<u>Change</u>	<u>Total</u>	<u>Change</u>
Total	\$132,269	\$25,026	\$28,367	\$6,322	\$4,142	(\$314)	\$164,778	\$31,033
Bridges & Highways	28,802	8,620	--	--	942	(178)	29,744	8,442
Environmental Protection	--	--	28,367	6,322	639	16	29,006	6,337
Housing	23,464	8,659	--	--	400	80	23,864	8,739
Dept. of Education	17,728	(4,472)	--	--	131	131	17,859	(4,341)
Parks	8,441	3,232	--	--	424	19	8,865	3,251
All Others*	53,833	8,986	--	--	1,607	(381)	55,440	8,604

*All Others include Transit, Traffic, Ferries, Transportation Equipment, Sanitation, Correction, Public Buildings, Police, NYC Health + Hospitals, Fire, Courts, Cultural Affairs, Health, Human Resources, Aging, Children’s Services, Libraries, Homeless Services, CUNY, Real Estate, Small Business Services, and Energy Efficiency & Citywide Equipment.
Numbers may not add due to rounding.

The city chose to expand the strategy by planning most of the increase in the latter five years of the ten-year program, FYs 2029–33, as displayed in Table 17 on page 35. Compared to the second half of the prior ten-year strategy, targeted capital commitments were increased by \$23.2 billion, which accounts for 83 percent of the total increase. Much of the increase is planned for projects financed by tax-supported debt issued by the city and NYCTFA representing \$20.2 billion of the increase to the latter half of the strategy. Even with most of the growth in commitments scheduled for the latter half, the current strategy is still front loaded with 57 percent of total-funded commitments planned for in the first five years. When compared to the ten-year strategy released in April 2021 in which 65 percent of planned commitments were scheduled within the first half, the current strategy is less front loaded. With most of expansion in the ten-year strategy funded with tax-supported debt, the city increased its long-term borrowing projections to accommodate the growing capital costs.

**Table 17. Ten-Year Capital Strategies Funding Distribution Comparison
First Half vs Second Half**

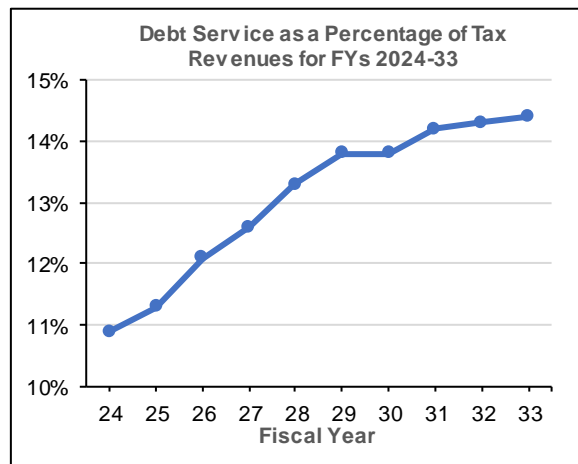
(\$ in billions)

Targeted Commitments April21 vs April23	April 2021			April 2023	
	5-Year Subtotal	Percent Of Total	<First Half> Subtotal Change	5-Year Subtotal	Percent Of Total
Tax-supported	\$71.62	54%	\$2.40	\$74.01	46%
NYW	11.76	9%	2.54	14.30	9%
Noncity Funds	<u>3.71</u>	<u>3%</u>	<u>(0.13)</u>	<u>3.58</u>	<u>2%</u>
Total	\$87.08	65%	\$4.81	\$91.89	57%
<hr/>					
	<Second Half>				
	5-Year Subtotal	Percent Of Total	Subtotal Change	5-Year Subtotal	Percent Of Total
Tax-supported	\$36.10	27%	\$20.18	\$56.28	35%
NYW	9.51	7%	3.24	12.75	8%
Noncity Funds	<u>0.75</u>	<u>1%</u>	<u>(0.20)</u>	<u>0.56</u>	<u>0%</u>
Total	\$46.36	35%	\$23.23	\$69.59	43%
<hr/>					
Numbers may not add due to rounding.					

FYs 2024–33 Debt Profile

The tax-supported borrowing by the city and the NYCTFA for ongoing capital projects as well as planned commitments in the current strategy is estimated to drive up the associated outstanding debt and consume an increasing portion of the city's tax revenues. The city and NYCTFA each project to issue \$57.6 billion for a total of \$115 billion in long-term borrowing over FYs 2024–33. This is a \$13 billion increase over the long-term issuance projections for the prior strategy encompassing FYs 2022–31 totaling \$102 billion. Consequently, the FCB projects combined outstanding debt to reach \$152 billion by FY 2033.

The city views the projected growth in total-funded debt service costs, net of prepayments, to be affordable. The means by which the city gauges the affordability of the debt service is by evaluating the burden it places on tax revenues. The city uses 15 percent as the threshold of affordability for this debt service burden. As displayed in the figure to the right, for the current ten-year strategy, the forecasted debt service costs will absorb an increasing share of tax revenues, climbing from 10.9 percent in FY 2024 to 13.3 percent in FY 2028 and peaking at



14.4 percent in FY 2033. Nevertheless, the debt service burden projected through FY 2033 remains below the 15 percent threshold of affordability.

There is a likelihood that debt service could be less than forecasted, as it is estimated using conservative interest rate assumptions. In addition, the city may not logistically be able to undertake the projected high level of capital commitments. However, the current rising interest rate climate puts more upward pressure on debt service costs and has made it more challenging for the city to achieve savings. To the extent that interest rates remain high, the debt service burden could be exacerbated.

V. Glossary of Acronyms

ACA	Affordable Care Act
ARPA	American Rescue Plan Act
CityFHEPS	City Family Homelessness and Eviction Prevention Supplement
CPI	Consumer Price Index
CUNY	City University of New York
DC 37	District Council 37
DEP	Department of Environmental Protection
DHS	Department of Homeless Services
DOE	Department of Education
DSS	Department of Social Services
DPR	Department of Parks and Recreation
eFMAP	enhanced Federal Medical Assistance Percentage
FCB	Financial Control Board
FEMA	Federal Emergency Management Agency
FTS Bonds	Future Tax Secured Bonds
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GCT	General Corporation Tax
G.O. Bonds	General Obligation Bonds
HERRCs	Humanitarian Emergency Response and Relief Centers
H+H	NYC Health + Hospitals
HPD	Department of Housing Preservation and Development
MTA	Metropolitan Transportation Authority
NYCTFA	New York City Transitional Finance Authority
NYW	New York City Municipal Water Finance Authority
OTPS	Other Than Personal Service

PBA	Police Benevolent Association
PCE	Personal Consumption Expenditure
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Service
PTET	Pass-through Entity Tax
RGDP	Real Gross Domestic Product
SCA	School Construction Authority
STAR	School Tax Relief
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers

Additional copies of this report
may be obtained from:

New York State
Financial Control Board
80 Maiden Lane
Suite 402
New York, NY 10038

or through the Financial Control Board's website: <https://fcb.ny.gov>

Please notify the Financial Control Board at (212) 417-5046 if you wish to have your name removed from our mailing list or if your address has changed.